International Business Environments and Operations, 13/e

Part One
Background For International Business



Chapter 1 Globalization and Internati
Business

Chapter Objectives

- To define globalization and international business and show how they affect each other
- To understand why companies engage in international business and why international business growth has accelerated
- To discuss globalization's future and the major criticisms of globalization
- To become familiar with different ways in which a company can accomplish its global objectives
- To apply social science disciplines to understanding the differences between international and domestic business

Introduction

Globalization is the ongoing process that deepens and broadens the relationships and interdependence among countries. International Business is a mechanism to bring about globalization.

International Business

International business consists of all commercial transactions—including sales, investments, and transportation—that take place between two or more countries

Increasingly foreign countries are a source of both production and sales for domestic companies

Studying International Business is Important

- Most companies are either international or compete with international companies
- Modes of operations may differ from those used domestically
- The best way of conducting business may differ by country
- An understanding helps you make better career decisions
- An understanding helps you decide what government policies to support

Measuring Globalization

- A.T. Kearney/Foreign Policy Globalization Index
  - Economic
  - Technological
  - Personal Contact
  - Political

Factors Contributing to Rapid Growth of International Business

1. Increase in and expansion of technology
2. Liberalization of cross-border trade and resource movements
3. Development of services that support international business
4. Growing consumer pressures
5. Increased global competition
6. Changing political situations
7. Expanded cross-national cooperation

What's Wrong with Globalization

- Threats to national sovereignty
- Economic growth and environmental stress
- Growing income inequality and personal stress
- Offshoring – the transferring of production abroad – is controversial in terms of who benefits when costs are reduced and whether the process exchanges good jobs for bad ones.

Companies Engage in International Business

- To Expand Sales: pursuing international sales increases the potential market and potential profits
- To Acquire Resources: may give companies lower costs, new and better products, additional operating knowledge
- To Diversify or Reduce Risks: international operations may reduce operating risk by smoothing sales and profits, preventing competitors from gaining advantage

Modes of Operation in International Business

- Merchandise exports and imports
- Service exports and imports
  - Tourism and Transportation
  - Service Performance
  - Asset Use
- Investments
  - Foreign Direct Investment (FDI)
  - Portfolio Investment

Multinational Enterprises

Multinational Enterprises (MNEs) take a global approach to markets and production. Sometimes they are referred to as multinational corporations or companies (MNCs) or transnational companies (TNCs).

Difference Between International and Domestic Operations

When operating abroad companies may have to adjust their usual methods of carrying out business.

Foreign conditions often dictate a more suitable method, and the operating modes used for international business differ from those used on a domestic level.

Physical and Social Factors Affecting International Business Operations

To operate within a company’s external environment, its managers must have knowledge of business operations and a working knowledge of social sciences, and how they affect all functional business fields.

Physical and Social Factors Affecting International Business Operations

OPERATING ENVIRONMENT		OPERATIONS
PHYSICAL AND SOCIAL FACTORS • Political policies and legal practices • Behavioral factors • Economic forces • Geographic influences	→	OBJECTIVES
	←	STRATEGY
COMPETITIVE FACTORS		MEANS

Competitive Factors Affecting International Business

- A company's competitive strategy influences how and where it can best operate.
- A company's competitive situation may differ in terms of its relative strength and which competitors it faces.

Competitive Factors Affecting International Business

OPERATING ENVIRONMENT

PHYSICAL AND SOCIAL FACTORS

COMPETITIVE FACTORS

- Competitive strategy for product
- Company resources and experience in host country
- Competitors faced in each market

OPERATIONS

OBJECTIVES

STRATEGY

MEANS

Future of International Business and Globalization

- Further globalization is inevitable.
- International business will grow primarily along regional rather than global lines.
- Forces working against further globalization and international business will slow down both trends.